



TRANSCRIPT

COURSE 1 - MODULE 1 - LESSON 4

Information Reporting

Hello. I hope you had a chance to look through all the different form types used for reporting I mentioned in the last lesson.

So where are we today and what happens to all this reporting?

As I've said the number and types of forms used for information reporting have not only been increasing in numbers but also increasing in complexity, which in turn is resulting in increasing information being reported. And this is absolutely going to continue. And not only will you see this continue from the IRS's point of view, but we are now seeing this trend expand globally as other countries are looking at different types of reporting and expanding on their own information needs.

But what does all this really mean? Well in the global environment today, we can categorically say information reporting is becoming much more important and is having an increasing impact on us all.

Ok so let's have a quick re-cap. We've discussed the concepts of withholding, the withholding on payments to non-U.S. persons and non-resident aliens, and we've introduced you to backup withholding for U.S. persons. We've also looked at information and tax returns using the Form types 1099 and the Forms 1042 and 1042-S. But what happens after these information returns are completed and sent on their way? What does the IRS do with the information that it collects?

Well domestically the IRS compares the information provided on the information returns to the income tax returns themselves, and basically looks for any discrepancies, DIFFERENCES in the two sets of data. Maybe the best way to explain this is to run through a quick example.

Let's say a U.S. person files a return & they earned interest from a bank, the IRS would take the 1099 filed by the bank and compare it to the corresponding return filed by the person. If there was any mismatch in that information the IRS would send out an automated notice to the person, not the bank, and asks them to explain the difference or pay the extra tax due. A lot of the IRS's enforcement is done through this information matching, to make sure that all of the income that was reported was actually included on the income tax return. In the United States, this is also true for the social security administration who pick up all the wage information and all the different social security holdings, running similar cross referencing.

When it comes to each state, many of the 1099's contain a place to put state information. Also, many of the states participate in a program with the IRS, that allows the IRS to share all of this information on the returns. And they, the states, can make sure if its applicable, that people are paying their state taxes.



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For the states that do not participate in this sharing program, Forms 1099 may need to be filed directly with those states. So you can see that this one little Form 1099, that was filed with the IRS can be shared amongst many organisations to allow them to administer their taxes.

Now internationally, the IRS and many countries even prior to FATCA, had entered into treaties that allowed for sharing of information, and so historically information on the 1042's, where these treaties were in effect has been shared with those foreign jurisdictions. Obviously today with the introduction of FATCA and the global roll out of CRS there is much more information that is being shared and not only are we already seeing it, but we do expect this trend to continue.

I hope that gives you some idea of the importance of the information returns and what is done with all that information. And I am sure it also highlights to you the importance of accuracy. If you just take a moment to think about the impact incorrect information would have.

In the resource area we have added a couple of the forms for you to look at, highlighting where certain information goes and where certain information is matched.

In the next lesson, which also happens to be the last one in this foundation module we are going to finish by looking at how all of this impacts you, and what you need to think about, and be aware of in your day to day life.

I hope all of this is starting to build the picture for you. So go and take a look in the resources area.